

Intro to SBA Lending – Part 1

Tuesday, January 17 – 11:00 a.m. Eastern

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Thank you!



U.S. Small Business Administration

West Virginia District Office

Intro to SBA Lending Part I

**Presented by
West Virginia District Office**



U.S. Small Business Administration

Mark Your Calendar

- Intro to SBA Lending, Part II – 11:00 a.m. on January 24

Session includes:

Equity Requirements

Acceptable Sources of Injection

IRS Form 4506-T

Debt Refinancing

Changes of Ownership

Business Valuation Requirements

Occupancy Requirements

Franchises

- Intro to SBA Lending, Part III - 11:00 a.m. on January 31

Session includes:

Servicing Actions

Liquidation Status Transfer

Site Visit & Reporting Requirements

Guaranty Purchase Requests

Charge-Off & Referral to Treasury

To register for any of the additional sessions, visit <https://www.sba.gov/offices/district/wv/clarksburg/resources/west-virginia-lender-resources>



Part I Will Cover

- How the SBA Guaranty Works
- Fees and Fee Waivers
- Interest Rates, Maturities, Eligibility and Uses of Proceeds
- Credit Standards
- Collateral Policy
- Express Loans
- Grow (504) Program

Why Consider SBA Guaranteed Loan?

- Longer maturity needed.
- Inadequate collateral.
- Broaden your lending to include businesses outside your normal bank policy such as start-ups, changes of ownership & higher turnover businesses.

How SBA Loan Guaranty Program Works

- Commercial LO decide they need an SBA guaranty. Lender must certify that, without the SBA guaranty, they would not be able to make the loan.
- Lender completes their underwriting and then decides what SBA loan program to use.
- Depending on the loan program used, either the lender will use their delegated authority to approve the loan or, for non-delegated loans, SBA will make the final decision.
- A Loan Authorization is prepared which outlines the terms of guaranty. Lender then closes and disburses loan per Authorization.

Delegated loan programs are:

- Preferred Lenders Program (PLP)
- SBA Express & Export Express Loan Programs

SBA [Notice 5000-1376](#) reminds lenders of loan program requirement regarding determining the borrowers ability to obtain credit w/o government guaranty – Credit Unavailable Elsewhere requirement!

How SBA Loan Guaranty Program Works

- If borrower defaults, lender may submit a Purchase Demand Kit (PDK) requesting that SBA honor its guaranty. Prior to submitting the PDK, lender is required to, at a minimum, liquidate all business personal property.
- After purchase, Lender is required to liquidate any remaining collateral and share the proceeds with SBA based on the guaranty percentage.

Want to know more about the SBA Purchase process?

Sign up for the Jan. 31 *Intro to SBA Lending, Part III* webinar -
<http://events.constantcontact.com/register/event?llr=bde56vcab&oeidk=a07eddsjzcka256744d>



Types of SBA Loan Programs

- **Advantage Loan Program**
(formerly 7a)

Includes SBA Express & Export Express

- **Grow Loan Program**
(formerly 504)

Fixed Assets

Quick Reference Loan Chart To Be Sent At Conclusion of Webinar

Advantage Loans

- Standard Advantage Loan Guaranty Program – \$5 million
 - Agency's flagship program available to all lenders with signed Form 750 *Loan Guaranty Agreement*
 - Processed in the Loan Guaranty Processing Center (LGPC) in California.
- SBAExpress – up to \$350,000
- Export Express – up to \$500,000
 - Lenders must apply to become SBAExpress and Export Express lenders.

Total outstanding SBA loans to any one borrower either on their own or combined with their affiliates may not exceed these limits.

CAPLine Loan Programs

- Short Term Working Capital Programs - Four Subprograms
 - Working Capital Line (business must generate accounts receivable)
 - Contract Line
 - Seasonal Line of Credit
 - Builder Line (Spec building)
- Ten Year Maximum Maturity except Builder line has 5-year maximum
- Maximum loan amount is \$5 million since this is a subset of the Standard 7(a) loan program.
- Interest rate maximums are the same as 7(a).

Guaranty Percentages

- Standard Advantage Program
 - Loans up to \$150,000 85%
 - Loans over \$150,000 75%
- SBAExpress Loans 50%
- Export Express
 - Loans up to \$350,000 90%
 - Loans over \$350,000 75%

Advantage Loan Fees

1. Guaranty fee – Bank pays fee then is reimbursed by borrower. May be passed on to Borrower after first disbursement. Lender must use www.pay.gov to remit this fee.
 - Term of 12 months or less - 1/4 of 1% (0.25%) of guaranteed portion – fee is due within 10 days of receipt of loan number.
 - Term over 12 months (due within 90 days):
 - Loans up to \$150,000 – fee is 0% in FY 2017
 - Loans between \$150,001 and \$700,000 - 3% of guaranteed portion
 - For loans of \$700,001 to \$5 Million: 3.5% of the guaranteed portion up to \$1 Million, **PLUS**, 3.75% of the guaranteed portion over \$1 million
2. Ongoing fee of 0.546% per year on outstanding balance; collected monthly – Paid by Lender – **may not be passed on to Borrower.**

FY17 Advantage Loan Fee Adjustments

SBA is offering three fee adjustments in FY 2017:

- All Advantage loans (including Express programs) in the amount of \$150,000 or less, upfront guaranty fee will be zero.
 - Since SBA is not charging lenders a guaranty fee, lenders may not charge a guaranty fee to the borrower in connection with these loans.
 - CAUTION: If two or more SBA loans are approved within 90 days of each other, guaranty fee is based on aggregate amount of the loans.

Advantage Fee Adjustment – FY17

SBA Veterans Advantage – only available to qualified small businesses:

- SBA Express loans of \$150,001 to \$350,000, up-front guaranty fee is 0%.
- For non-SBA Express 7(a) loans of \$150,001 up to and including \$500,000 up-front guaranty fee is reduced by 50%, as follows:
 - For loans with a maturity in excess of 12 months:
 - i. Loans \$150,001 to \$500,000: 1.5% of the guaranteed portion;
 - For loans with a maturity of 12 months or less:
0.125% of the guaranteed portion.

Lenders must document their loan file with borrower's eligibility using documentation identified in attachment to [SBA Notice 5000-1390](#) (will be sent out after today's session), and must present copies of that documentation with any guaranty purchase request.

NOTE: There is no reduction in Lender's annual service fee for all loans. Also, any multiple of Advantage loans made within 90 days of one another are considered as one loan for purposes of determining guaranty amount and guaranty fees.

Allowable Bank Fees

- Reasonable packaging fees for time expended/service rendered
- Lenders legal fees
- Borrower requested services
- Out of pocket expenses
- Must notify Colson Services on Form 159. Submit with your monthly 1502 report. (*Note: You can generate SBA Form 159 in SBA One (see [Notice 5000-1379](#))*)
- Late payment fees if in the Note

Allowable Packages and Other Fees

- SBA has revised its policy to permit lenders or third parties, including lender service providers (LSPs), to charge a fee based on a percentage of the loan amount for packaging and other services. Limits apply.
 - Note: A standard fee charged to all Small Business Applicants is not acceptable.
 - Lender may not charge for the lender's costs associated with underwriting the loan including the completion by the lender of SBA's application forms and lender's analysis.
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- “Packaging Services” includes assisting the SB Applicant with completing the application, preparing a business plan, cash flow projections, and other documents related to the application.
 - “Other services” includes consulting as to what financing is needed and what type, broker or referral fees.

Interest Rates

- Standard Advantage
 - Terms of less than 7 years – Base Rate* + 2.25%
 - Terms of 7 years or more – Base Rate* + 2.75%
 - May add 1% to above on Loans up to \$50,000
 - May add 2% to above on Loans up to \$25,000
 - SBAExpress Loans
 - Base rate* + 6.5% on loans of \$50,000 or less
 - Base rate* + 4.5% on loans over \$50,000
- *Base Rate options:*
1. *Prime Rate***
 2. *LIBOR (1 month)** +3%*
 3. *SBA Peg Rate (published quarterly on Colson website)*

***in effect on the first business day of the month as identified in a national financial newspaper*

Maturity Maximums

- Working capital or inventory loan terms should be appropriate to the borrower's ability to repay but not more than 10 years.
- Real estate up to 25 years
- Machinery – 10 years or its useful life up to 25 years
- Just about everything else – 10 years

Eligibility

- Must be a for-profit business open to the general public
- Must be small including affiliates
- Must have a sound business purpose
- Ineligible businesses/uses of proceeds (not complete list, see SOP 50 10 5 (I))
 - Businesses involved in lending or speculation
 - To acquire real estate that will be held primarily for investment purposes
 - Pyramid-type businesses (e.g. Mary Kay)
 - Businesses deriving more than 1/3 of their revenue from legal gambling activities (e.g. lottery sales)
 - No payments allowed to owners, or to pay delinquent withholding, sales or similar funds held in trust
 - Mini-warehouses ARE eligible.
 - Prior loss to the Government:
 - Small Business Applicant that incurred Delinquent Federal Debt or caused Prior Loss (either directly or as a guarantor);
 - Any business owned, operated or controlled by Small Business Applicant or an Associate of Small Business Applicant that incurred Delinquent Federal Debt or caused Prior Loss (either directly or as a guarantor); and
 - For Delinquent Federal Debt only, any guarantor who has a Delinquent Federal Debt

Eligible Uses of Proceeds

SBA loan proceeds may be used to finance:

- Working capital
- Furniture and fixtures
- Machinery and equipment
- Land and building purchase including construction and renovation
- Business acquisition (add'l conditions apply)
- Refinancing of existing debt (add'l conditions apply)
- Eligible Franchises

Reminders for Advantage Loans

- All new Advantage loan applications (including Express) must be submitted via SBA One or E-Tran Origination.
- All Advantage loans (including Express) use the same set of application forms: SBA Forms 1919 and 1920.
- For all non-Express loans:
 - Applications must be submitted using the 10-Tab Loan Application Submission format (Center will return package if not in 10-Tab order). Download 10-Tab from <http://www.sba.gov/content/7a-submission-instructions-and-checklist>
 - Application documents must be uploaded into E-Tran (if each document is less than 10MB) or sent via SBA's Send This File webpage (<https://www.sba.gov/content/send-file>)
- Note and Guaranty forms - lenders may use their own versions on all 7(a) loans including Express loans (additional language must be added).

Advantage Loan Credit Standards

SBA has established separate credit standards for Advantage loans:

Non-Express loans:

- Advantage Loans of \$350,000 or less –
 - Credit Score pre-screening which is based on a combination of consumer credit bureau data, business bureau data, borrower financials, and application data.
 - Lender enters certain information into E-Tran and a credit score is generated.
 - Minimum score is based on lower end of the risk profile of the current SBA portfolio and may be adjusted up or down from time to time. Current minimum score is 140.
 - If minimum score is met, lender will continue completing E-Tran entry and then upload documents into E-Tran or send them via Send This File.
 - If minimum score is not met, lender may:
 - submit a Standard Advantage loan application to Processing Center following procedures for Advantage loans over \$350,000, or
 - if SBA Express lender, submit an SBA Express application via E-Tran for a 50% guaranty.
 - re-submit after 90 days.

Advantage Loan Credit Standards

Advantage Loans of \$350,000 or less (continued) –

Credit analysis standards:

- An acceptable credit score satisfies the requirement for lender to consider the following:
 - (a) Credit history of the applicant (and the Operating Company if applicable), its Associates, and guarantors, including historical performance as well as the potential for long term success (character and reputation will be determined through the appropriate questions on SBA Form 1919 and, if required, SBA Form 912);
 - (b) Strength of the business;
 - (c) Past earnings, projected cash flow, and future prospects; and
 - (d) Applicant's ability to repay the loan with earnings from the business.

NOTE: SBA outlines on page 148 of SOP 50 10 5 (I) the information that must be included in your credit memo for loans of \$350,000 or less (Will also send a Credit Standards Overview).

Advantage Loan Credit Standards

Advantage Loans over \$350,000 – no credit scoring

- Small business applicant's debt service coverage ratio (OCF/DS) must be 1.15 to 1 or greater on a historical and/or projected basis.
- Must use SBA's definitions, as follows:
 - Define operating cash flow (OCF) as earnings before interest, taxes, depreciation and amortization (EBITDA);
 - Debt service (DS) is defined as required principal and interest payments on all business debt inclusive of new SBA loan proceeds.

Advantage Loan Credit Standards

SBA Express and Export Express Credit Standards

- SBA has authorized Express lenders to make credit decision, including how much to factor in a past bankruptcy or whether to require an equity injection, without prior SBA review.
- Lenders must not make an SBA guaranteed loan that would be available on reasonable terms from either the lender itself or another source without an SBA guaranty.
- Credit analysis must demonstrate that there is a reasonable assurance of repayment.
- Lender is required to use appropriate, prudent and generally accepted industry credit analysis processes and procedures (which may include credit scoring), and these procedures must be consistent with those used for its similarly sized non-SBA guaranteed commercial loans.
- If lender's policy requires verification of equity injection then also must verify on Express loans.
- Lenders that do not use credit scoring for their similarly sized non-SBA guaranteed commercial loans may not use credit scoring for SBA Express or Export Express.

Advantage Collateral Policy

One of the primary reasons lenders use the SBA-guaranteed program is for those Small Business Applicants that demonstrate repayment ability but lack adequate collateral to fully repay the loan if the loan defaults. However, SBA does not permit its guaranty to be used as a substitute for available collateral.

- For loans of \$25,000 or less, lenders are not required to take collateral;
- For loans over \$25,000, up to and including \$350,000, lender must follow the collateral policies and procedures that it has established and implemented for its similarly-sized non-SBA-guaranteed commercial loans, but at a minimum, lender must take a first lien on assets financed with loan proceeds, and a lien on all of applicant's fixed assets to secure the loan. However, lender is not required to take a lien on real estate on applicant's balance sheet when real estate equity is less than 25% of fair market value.

Advantage Collateral Policy

- Lender may secure applicant's trading assets (using a 10% current book value for the calculation) if it does so for similarly sized non-SBA-guaranteed commercial loans.
- Lender may also take personally owned investment and residential real estate as collateral, and may limit the liens on that collateral in accordance with the provisions in SOP 50 10 5 (I).

Advantage Collateral Policy

- For loans in excess of \$350,000, lender must collateralize the loan to the maximum extent possible up to the loan amount.

If fixed assets do not fully secure the loan, the lender must take available equity in the personal real estate of the principals as collateral.

Note: SBA does not require a lender to collateralize a loan with personal real estate to meet the “fully secured” definition when the equity in the real estate is less than 25% of the property’s fair market value.

Advantage Collateral Policy

- When loan proceeds will be used to purchase assets, a first security interest in those assets **must** be obtained.
- When loan proceeds will be used to refinance existing debt, the loan **must** be secured with **at least** the same security and lien priority as the debt that is being refinanced.
- Unlimited Full Personal Guaranties are required on any individual who owns 20% or more of the Small Business Applicant.

Express Loan Programs

- Are SBA's most popular loan programs
- Can be used for term loans or lines of credit (for up to 7 years)
- Credit authority delegated to lender
- Quick SBA response - new loan submissions are entered in E-Tran (or SBA One) and receive an immediate turnaround
- Lender uses mostly their own forms and procedures.
- Lender may take many servicing actions without prior SBA approval (See Matrix)
- Export Express may be used for businesses entering or expanding an export market that have been operating, although not necessarily in exporting, for at least 12 full months. Also, at least 70% of a revolving loan will be used for exporting.

Grow (504) Loan Program

- A financing tool which provides long-term, fixed-rate financing to small businesses to acquire commercial real estate and/or heavy machinery and equipment.
- Certified Development Companies, which are nonprofit corporations set up to contribute to the economic development of their communities, work with the SBA and private-sector lenders to provide financing to small businesses.

How Does It Work?

- Combination Financing of generally:
 - 50% Lender financing with no government guaranty (1st lien position)
 - 40% Government Financing through SBA-approved CDC (2nd lien position)
 - 10% Owner's Equity
 - Add 5% if business is less than two years old
 - Add additional 5% if limited-use building**.
- SBA portion offers long-term, fixed rate financing
 - Maturity - 10 or 20 years depending on use of proceeds
 - Interest rate: normally funded at a rate lower than that of the bank, 4.59% in December 2016

**Definition: Limited or Special Purpose Property - A limited-market property with a unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built.

Maximum Debenture

- \$5,000,000 when meeting:
 - job creation criteria of one job per \$65,000 of CDC/SBA portion of the financing
 - or by meeting one of 14 Public Policy or Community Development goals.
- \$5,500,000 for “Small Manufacturers” (NAICS beginning with 31, 32 or 33) and certain energy projects

COMMON PUBLIC POLICY GOALS

- Business district revitalization
- Rural development
- Minority business development
- Veteran-owned businesses
- Women-owned businesses
- Energy projects

Eligibility

- The business must be operated for profit and fall within the size standards set by the SBA.
- Small =
 - Maximum tangible net worth is \$15 million or less; and
 - Average net income after Federal income taxes (excluding any carry-over losses) for 2 full fiscal years before date of application is \$5 million or less.
- Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

Eligible Project Uses

- Fixed asset projects such as:
 - purchasing land and improvements
 - existing buildings, grading, street improvements, utilities, parking lots and landscaping;
 - construction of new facilities
 - modernizing, renovating or converting existing facilities;
 - purchasing long-term machinery and equipment.
 - Professional Fees – directly attributable and essential to the Project with the exception of attorney's fees incurred in closing the Interim and Third Party Loans. Examples include: title insurance, title searches and abstract costs, surveys and zoning matters.
- The Grow Program cannot be used for working capital or inventory; however, you may use 7(a) programs for these financing needs.

Collateral

- Normally the project assets being financed are the only collateral required. SBA usually in 2nd lien position.
- Personal guaranties of the principal owners are required.
 - Principal owners are those who own 20% or more of the business.

Third Party Considerations

- Third Party Lender must certify in its commitment letter that it would not make the loan without SBA's participation.
- A one-time fee of 0.50 % of the senior mortgage loan amount. May be paid by Third Party Lender, CDC or borrower.
- Minimum maturity on lender's first trust loan is:
 - 7 years on a 10-year Grow loan;
 - 10 years on a 20-year Grow loan.
- Prepayment Penalty: payable during the first half of the term. Amounts to 100% of the interest in the 1st year, decreasing by 10% each year on 20-yr. debenture.

Fees paid by Borrower are approximately 2% of the SBA portion and included in the Grow loan amount.

Recap of Grow Loan Program

- Up to 90% financing available
- Financing includes both hard and soft costs
- 20 year fully amortizing for Grow portion
- 50% LTV for bank
- Generally, below market rate on SBA portion

NEW! Grow Debt Refinancing

- Grow Debt Refinancing is now a permanent part of the program
- [SBA Notice 5000-1382](#) provides full details re: statutory requirements, eligibility, fees, documentation requirements, etc.
- SBA's Sacramento LPC began accepting apps. June 24, 2016

Useful Websites for Lenders

- New version I of SOP 50 10 (5) -
https://www.sba.gov/sites/default/files/sops/SOP_50_10_5_I_FINAL_Clean_Highlighted_Changes.pdf
- Loan Servicing & Liquidation -
https://www.sba.gov/sites/default/files/sops/SOP_50_57_2.pdf
- www.sba.gov/for-lenders (download forms)
- www.sba.gov/wv - West Virginia District website
- www.pay.gov (used to pay Guaranty Fee)

Questions



Contact Information

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Or contact your local Lender Relations
Specialist www.sba.gov

WV Lenders Website:

[https://www.sba.gov/offices/district/wv/clarksburg/r
esources/west-virginia-lender-resources](https://www.sba.gov/offices/district/wv/clarksburg/resources/west-virginia-lender-resources)